Plan Year-End Business Tax Strategies Now

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With the holidays coming up, the last thing you probably want to think about right now is taxes. After all, don't you have until March before you must start thinking about taxes? Well, yes and no. While your tax return might not be due until March or later, there might be tax-saving opportunities available to your company right now — but only if you act before the end of the year.

Therefore, it might be a good idea to plan to meet with your tax advisor before the end of this month to plot out a few year-end tax planning moves. Following are a few year-end tax strategies that might be appropriate for this year. Of course, keep in mind that pending tax reform proposals could impact some of these strategies.

Defer Income, Accelerate Expenses

The classic year-end tax strategy for cash-based businesses is to defer income into next year while accelerating expenses into this year. This can potentially lower your current taxable income, which in turn could reduce your 2017 tax bill while also boosting cash flow. This strategy might make even more sense this year than usual, given proposals to lower the corporate tax rate starting in 2018.

One way for cash-basis businesses to defer income into next year is to hold off on sending December invoices until later in the month. This way, you likely won't receive payment and need to recognize income until after the first of the year. Before implementing this strategy, make sure that the lack of cash flow in December won't hurt your business financially. Note: If you receive checks in December, you are considered to be in "constructive receipt" of the funds in 2017 and must report the income on your 2017 tax return, even if you don't deposit the checks until after the end of the year.

On the expense side, try to identify expenses that your business will incur this year but won't pay until 2018. If possible, recognize and record these expenses before the end of the month so you can deduct them on your 2017 return. These might include things like property taxes, utilities, insurance, salaries, commissions, advertising and interest expense. In addition, you can deduct prepaid expense account items on your 2017 return if they are used before the end of the year.

Also purchase and place in service before the end of the year any equipment you're planning to buy early next year, if your cash flow will allow. This includes computers, software, telecommunications equipment and office furniture, as well as heavy manufacturing and industrial equipment. For tax year 2017, your business can expense and deduct up to $500,000 in qualifying fixed assets and equipment that are purchased and placed in service before December 31, 2017.

More Year-End Tax Moves

In addition to this classic year-end tax planning strategy, here are a few other tax moves to consider making before the end of the year:

Write off uncollectible accounts receivable — Take a fresh look at your uncollected receivables and determine which ones are likely to not be collected. Then you can write these off on your 2017 return as bad debt expenses. You can still pursue collection of these receivables next year, even if you write them off — if the money is collected, it will be counted as revenue in 2018.

Make tax-deductible retirement plan contributions — Money that your business contributes to your employees' 401(k) and profit-sharing accounts can be deducted on your federal income tax return, up to the annual contribution limits. For 401(k)s, the limit this year is $18,000, or $24,000 for employees who are age 50 or over. For profit-sharing plans, the limit this year is $54,000 or 25% of compensation, whichever is less.

You have until *after* the end of the year to implement this strategy. You can make 2017 tax-deductible retirement plan contributions all the way up to your tax-filing deadline.

Take advantage of targeted tax breaks — There are several targeted tax breaks that could result in substantial tax savings for your business if you qualify. One of these is the research and development tax credit, which was recently made permanent by Congress. Your business can apply up to 9.1% of eligible expenses against your federal income tax liability.

Another is the Work Opportunity Tax Credit (WOTC), which you might be able to claim if you hire members of certain targeted groups (such as veterans, food stamp recipients and ex-felons). The credit is equal to 25% of qualified wages for employees who worked at least 120 hours this year, up to $2,400. It increases to 40% of qualified wages for employees who worked at least 400 hours this year

Yet another targeted tax break is the domestic production activities deduction (DPAD). Your business might qualify for this break if you are involved in domestic building and construction, film and video production, or agricultural or engineering services. The deduction is equal to 9% of the income your business earns from qualifying activities.

Concluding Thoughts

There may be tax-saving opportunities available to your company right now, but only if you act before the end of the year. So, it might be a good idea to plan to meet with your tax advisor before the end of this month to plot out a few year-end tax planning moves, including the classic strategy of deferring income and accelerating deductible expenses. A CFO services provider, working with your tax advisor, can help you plot out the right year-end tax strategies for your business.

About CFO Edge

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